

November 28, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

**Re: Response to the Attorney General's Motion for Reconsideration, D.T.E.
01-106-C; D.T.E. 05-55; D.T.E. 05-56**

Dear Secretary Cottrell:

Massachusetts Electric Company and Nantucket Electric Company, d/b/a National Grid (collectively "National Grid") hereby respond to the Attorney General's Motion for Reconsideration in the above-captioned dockets. We appreciate the opportunity to provide this response.

Procedural History

In docket D.T.E. 01-106, the Department is investigating ways to increase the penetration rate for discounted electric, gas, and telephone service. On August 8, 2003, the Department established a computer matching program electronic matching process between utilities and the Executive Office of Health and Human Services ("EOHHS"). D.T.E. 01-106-A. On December 6, 2004, the Department found it appropriate to establish a reconciliation mechanism to recover any revenue shortfall from the implementation of this electronic matching process. D.T.E. 01-106-B at 9. The Department directed companies to propose a "reconciliation mechanism based on the difference between the total forecasted lost revenues associated with the low-income discount and the amount of the low income subsidy that was approved in the company's last rate case or settlement, adjusted for any changes in sales and the number of low-income customers as of the effective date of the computer matching program. *Id.* at 9-10. In response, National Grid filed a Residential Assistance Adjustment Factor on July 26, 2005, docketed as D.T.E. 05-56, and NStar Electric also made a tariff filing on August 16, 2005, docketed as D.T.E. 05-55. The Department suspended these tariffs for investigation until November 1, 2005, consolidated these dockets with the investigation in D.T.E. 01-106, and held a public hearing and technical session on September 16, 2005. Following the technical session, the hearing officer issued a memorandum setting forth an alternative cost recovery mechanism and requested comments from the parties. The Department then issued a decision on October 14, 2005 adopting its alternative cost recovery mechanism ("Order").

The Attorney General has asked the Department to reconsider its Order. The Attorney General argues that the methodology the Department is requiring the utilities to use is not appropriate, does not conform to the Department's directives in DTE 01-106-B, and creates

disparate recovery amounts among utilities. In addition, the Attorney General argues that the use of the prime interest rate and the lack of refund of any baseline amount to ratepayers does not serve the public interest.

Methodology

In its Order, the Department has required that the baseline amount of low-income discount that is collected through base rates be calculated as the difference between the base rate revenues that would have been collected from customers receiving the low-income discount during the year ending June 30, 2005, had no low-income discount existed, and the actual base rate revenues collected from low-income customers for the twelve months ending June 30, 2005. In our September 30, 2005 comments on the Department's proposed methodology, we noted that this calculation does not reflect the revenue collected through base rates, but rather reflects the discount provided to Rate R-2 customers. The revenue collected through base rates is that revenue generated by other customers who pay for the discount. It is calculated by taking the amount of the low income subsidy in a utility's last rate case and converting it to a per kWh value (test year subsidy divided by test year kWh), and then multiply the per kWh value by the kWh deliveries for a twelve month period. This revenue amount is different than what the proposal describes, which is akin to a cost number, not a revenue number.

Accordingly, we agree with the Attorney General that the methodology is not consistent with D.T.E. 01-106-B. We also believe that a recovery mechanism based on the revenue collected through base rates (as described above) compared to the discount provided to low-income customers over the same twelve-month period would be more appropriate.

As to the Attorney General's contention that the various cost recovery mechanisms resulting from the Order cause some companies to reap a profit and others to face a loss from implementing the matching program, National Grid agrees that the various cost recovery mechanisms would lead to this appearance, but National Grid is unable to agree with the conclusion absent a review of the underlying data from the companies. In fact, the conclusion reached by Timothy Newhard, in paragraph 9 of his affidavit, that National Grid's Residential Assistance Adjustment Factor is improving our financial position, is unsupported by the underlying data. As shown in Attachment 1 hereto, National Grid provided \$514,827 more in discounts to low income customers during the period July 2004 through June 2005 than it generated in revenue from all customers. This suggests that since the last time National Grid established distribution rates as part of our restructuring settlement agreement in D.P.U./D.T.E. 96-25, National Grid has been able to increase the number of participants on our low-income discount rate at a rate faster than our growth in kWh deliveries. If the converse were true (i.e., if National Grid had decreased the number of participants on the low-income discount rate since last establishing distribution rates and was realizing a net benefit by collecting more revenue from all customers than National Grid was providing in discounts), a reconciling mechanism that failed to recognize this revenue mismatch would lock in the resulting margin, surely an unintended consequence. While National Grid does not believe it is necessary for the Department to undertake a full investigation of this matter under Mass. Gen. Laws c. 164, § 94, National Grid does suggest that the Department could review data from each company regarding the revenue it generated through base distribution rates and the discount it provided to

Mary L. Cottrell, Secretary

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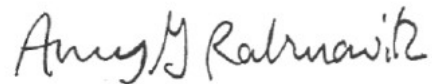
low income customers during July 2004 through June 2005 to determine if the cost recovery mechanisms are causing some companies to reap a profit and others to face a loss.

Appropriate Interest Rate

The Attorney General argues that interest should accrue at the customer deposit rate, not the prime interest rate. This is consistent with National Grid's proposal in D.T.E. 05-56. In our comments on the Department's proposal, we recommended that the Department allow the interest rate to be set as appropriate for each company, noting that it did not need to be the same for all electric and gas companies, but within each electric and gas company.

Thank you very much for your time and attention to this matter.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Amy G. Rabinowitz". The signature is fluid and cursive, with the first name "Amy" and last name "Rabinowitz" clearly distinguishable.

Amy G. Rabinowitz

cc: Service List

National Grid
Comparison of Revenue Generated
v. Discount Provided
July 2004 Through June 2005

(1)	Revenue Generated from All Customers, July 2004 through June 2005	\$12,246,052
(2)	Discounts Provided to Rate R-2 Customers, July 2004 through June 2005	<u>\$12,760,880</u>
(3)	Discounts Provided in Excess of Revenue Generated, July 2004 through June 2005	(\$514,827)

- (1) Page 2
- (2) Page 3
- (3) Line (1) - Line (2)

National Grid
Estimate of Revenue Received from All Customers in Support of Subsidy
July 2004 Through June 2005

Section 1: Recovered from all Customers through Current Rates

MonthYear	kWh Deliveries - All Customers			Assumed Cost/kWh in Rates	Estimated Revenue Recovered
	Nantucket	MECO	Total		
	(a)	(b)	(c)	(d)	(e)
0704	12,220,682	1,833,894,840	1,846,115,522	\$0.00056	\$1,033,825
0804	13,020,061	1,883,786,916	1,896,806,977	\$0.00056	\$1,062,212
0904	15,718,681	1,961,663,206	1,977,381,887	\$0.00056	\$1,107,334
1004	10,981,153	1,711,418,447	1,722,399,600	\$0.00056	\$964,544
1104	9,723,765	1,658,245,594	1,667,969,359	\$0.00056	\$934,063
1204	11,353,827	1,943,610,688	1,954,964,515	\$0.00056	\$1,094,780
0105	11,662,392	1,925,931,326	1,937,593,718	\$0.00056	\$1,085,052
0205	10,911,028	1,861,196,418	1,872,107,446	\$0.00056	\$1,048,380
0305	12,074,447	1,951,642,080	1,963,716,527	\$0.00056	\$1,099,681
0405	9,823,641	1,695,328,764	1,705,152,405	\$0.00056	\$954,885
0505	9,060,136	1,577,721,937	1,586,782,073	\$0.00056	\$888,598
0605	10,574,575	1,726,385,754	1,736,960,329	\$0.00056	<u>\$972,698</u>
Total					\$12,246,052

- (a) DOER Form 110
(b) DOER Form 110
(c) Column (a) + Column (b)
(d) Section 2, Line (3)
(e) Column (c) x Column (d)

Section 2: Cost per kWh Included in Current Rates

(1)	R-2 Subsidy	\$9,345,106
(2)	Rate Year Total kWh	<u>16,421,133,697</u>
(3)	Revenue per kWh to Recovery Subsidy	\$0.00056

Source: October 1996 Offer of Settlement in DTE 96-25, Attachment 2 and
February 1998 Compliance Filing, Revised Exhibit PTZ-4

- (3) Line (1) ÷ Line (2), truncated after 5 decimal places

National Grid
Calculation of Subsidy Provided to R-2 Customers
July 2004 Through June 2005

kWh Deliveries

MonthYear	R-2A Subsidy Calculation						R-2E Subsidy Calculation				Total Subsidy
	Nantucket	MECO	Total	R-1	R-2A	Subsidy	MECO	R-1	R-2E	Subsidy	
				Distribution	Distribution			Distribution	Distribution		
				Charge	Charge			Charge	Charge		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	
0704	51,776	41,283,199	41,334,975	\$0.02450	\$0.00411	\$842,820	1,695,151	\$0.02450	\$0.00579	\$31,716	\$874,536
0804	47,650	44,504,306	44,551,956	\$0.02450	\$0.00411	\$908,414	1,771,336	\$0.02450	\$0.00579	\$33,142	\$941,556
0904	50,192	44,822,730	44,872,922	\$0.02450	\$0.00411	\$914,959	1,812,179	\$0.02450	\$0.00579	\$33,906	\$948,865
1004	48,130	36,800,175	36,848,305	\$0.02450	\$0.00411	\$751,337	1,314,798	\$0.02450	\$0.00579	\$24,600	\$775,937
1104	51,397	36,416,685	36,468,082	\$0.02450	\$0.00411	\$743,584	1,144,008	\$0.02450	\$0.00579	\$21,404	\$764,989
1204	72,758	43,739,944	43,812,702	\$0.02450	\$0.00411	\$893,341	1,287,463	\$0.02450	\$0.00579	\$24,088	\$917,429
0105	86,045	48,981,914	49,067,959	\$0.02450	\$0.00411	\$1,000,496	1,265,663	\$0.02450	\$0.00579	\$23,681	\$1,024,176
0205	92,610	47,637,988	47,730,598	\$0.02450	\$0.00411	\$973,227	1,186,308	\$0.02450	\$0.00579	\$22,196	\$995,423
0305	98,849	49,407,536	49,506,385	\$0.02502	\$0.00463	\$1,009,435	1,212,682	\$0.02502	\$0.00579	\$23,320	\$1,032,755
0405	77,798	41,242,652	41,320,450	\$0.02502	\$0.00463	\$842,524	1,015,217	\$0.02502	\$0.00579	\$19,523	\$862,047
0505	68,826	35,391,948	35,460,774	\$0.02502	\$0.00463	\$723,045	932,240	\$0.02502	\$0.00579	\$17,927	\$740,972
0605	62,520	38,941,348	39,003,868	\$0.02502	\$0.00463	<u>\$795,289</u>	1,116,977	\$0.02502	\$0.00579	<u>\$21,479</u>	<u>\$816,768</u>
Total						\$10,398,471				\$296,982	\$10,695,453

Number of Customers

MonthYear	R-2A Subsidy Calculation						R-2E Subsidy Calculation				Total Subsidy
	Nantucket	MECO	Total	R-1	R-2A	Subsidy	MECO	R-1	R-2E	Subsidy	
				Customer	Customer			Customer	Customer		
				Charge	Charge			Charge	Charge		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	
0704	90	78,266	78,356	\$5.81	\$3.77	\$159,846	4,500	\$5.81	\$0.87	\$22,230	\$182,076
0804	90	77,861	77,951	\$5.81	\$3.77	\$159,020	4,462	\$5.81	\$0.87	\$22,042	\$181,062
0904	89	77,062	77,151	\$5.81	\$3.77	\$157,388	4,421	\$5.81	\$0.87	\$21,840	\$179,228
1004	87	76,849	76,936	\$5.81	\$3.77	\$156,949	4,376	\$5.81	\$0.87	\$21,617	\$178,567
1104	83	71,431	71,514	\$5.81	\$3.77	\$145,889	3,592	\$5.81	\$0.87	\$17,744	\$163,633
1204	78	68,733	68,811	\$5.81	\$3.77	\$140,374	3,505	\$5.81	\$0.87	\$17,315	\$157,689
0105	87	71,752	71,839	\$5.81	\$3.77	\$146,552	3,490	\$5.81	\$0.87	\$17,241	\$163,792
0205	90	73,701	73,791	\$5.81	\$3.77	\$150,534	3,470	\$5.81	\$0.87	\$17,142	\$167,675
0305	92	75,030	75,122	\$5.81	\$3.77	\$153,249	3,443	\$5.81	\$0.87	\$17,008	\$170,257
0405	95	76,194	76,289	\$5.81	\$3.77	\$155,630	3,430	\$5.81	\$0.87	\$16,944	\$172,574
0505	98	77,169	77,267	\$5.81	\$3.77	\$157,625	3,407	\$5.81	\$0.87	\$16,831	\$174,455
0605	92	77,229	77,321	\$5.81	\$3.77	<u>\$157,735</u>	3,377	\$5.81	\$0.87	<u>\$16,682</u>	<u>\$174,417</u>
Total						\$1,840,790				\$224,637	\$2,065,427

Grand Total \$12,239,261 \$521,618 \$12,760,880

- (a) Per Company billing records for Nantucket Electric Company
- (b) Per Company billing records for Mass. Electric Company
- (c) Column (a) + Column (b)
- (d) Per Rate R-1 Tariff
- (e) Per Rate R-2 Tariff
- (f) [Column (d) - Column (e)] x Column (c)
- (g) Per Company billing records for Mass. Electric Company
- (h) Per Rate R-1 Tariff
- (i) Per Rate R-2 Tariff
- (j) [Column (h) - Column (i)] x Column (g)
- (k) Column (f) + Column (j)